

# **City of St. Clair Shores, Michigan**

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## **Federal Awards Supplemental Information June 30, 2004**

# City of St. Clair Shores, Michigan

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## Independent Auditor's Report

To the Honorable Mayor and City Council Board  
City of St. Clair Shores, Michigan

We have audited the basic financial statements of the City of St. Clair Shores, Michigan for the year ended June 30, 2004 and have issued our report thereon dated September 24, 2004. Those basic financial statements are the responsibility of the management of the City of St. Clair Shores, Michigan. Our responsibility was to express an opinion on those basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the basic financial statements of the City of St. Clair Shores, Michigan taken as a whole. The accompanying schedule of expenditures of federal awards and reconciliation of basic financial statements federal revenue with schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, PLLC*

September 24, 2004



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**Report Letter on Compliance with Laws and Regulations and  
Internal Control - Basic Financial Statements**

To the Honorable Mayor and City Council Board  
City of St. Clair Shores, Michigan

We have audited the financial statements of the City of St. Clair Shores, Michigan as of and for the year ended June 30, 2004 and have issued our report thereon dated September 24, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the City of St. Clair Shores, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of St. Clair Shores, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

To the Honorable Mayor and City Council Board  
City of St. Clair Shores, Michigan

This report is intended solely for the information and use of the City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

September 24, 2004

Report Letter on Compliance with Laws and Regulations and  
Internal Control - Major Federal Awards

To the Honorable Mayor and City Council Board  
City of St. Clair Shores, Michigan

**Compliance**

We have audited the compliance of the City of St. Clair Shores, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. The major federal programs of the City of St. Clair Shores, Michigan are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of St. Clair Shores, Michigan's management. Our responsibility is to express an opinion on the City of St. Clair Shores, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of St. Clair Shores, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of St. Clair Shores, Michigan's compliance with those requirements.

In our opinion, the City of St. Clair Shores, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2004-1 and 2004-2.

To the Honorable Mayor and City Council Board  
City of St. Clair Shores, Michigan

### **Internal Control Over Compliance**

The management of the City of St. Clair Shores, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of St. Clair Shores, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City of St. Clair Shores, Michigan's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2004-3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable condition described above is considered to be a material weakness.

This report is intended solely for the information and use of the City Council, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Plante & Moran, PLLC*

September 24, 2004

# City of St. Clair Shores, Michigan

## Schedule of Expenditures of Federal Awards Year Ended June 30, 2004

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity		Federal Expenditures
		Project/Grant Number	Award Amount	
U.S. Department of Housing and Urban Development - Direct programs - Community Development Block Grant:	14.218	N/A		
Program year 2000-B00-MC-26-0013			\$ 1,010,000	\$ 3,813
Program year 2001-B01-MC-26-0013			1,058,000	21,184
Program year 2002-B02-MC-26-0013			1,139,000	221,162
Program year 2003-B03-MC-26-0013			1,122,000	<u>564,522</u>
Total Community Development Block Grant				810,681
U.S. Department of Transportation - Passed through State of Michigan Department of Transportation - Federal Highway Administration	20.205			
		STP9950012	2,640	2,640
		STP0150010	35,088	35,088
		STP0150011	57,034	57,034
		STP0250030	139,616	139,616
		STP0450025	222,500	222,772
		STP0450026	265,766	265,766
		NH0250-025	358,473	358,473
		IMD0150-034	1,172,509	1,172,509
		BH0250-027	882,016	882,016
		STP0450035	312	<u>312</u>
Total U.S. Department of Transportation				3,136,226
Department of Homeland Security - Federal Emergency Management Agency- Passed through the Michigan Department of State Police - Black Out Grant	97.036	FEMA-EM-099-07362	21,374	21,374
U.S. Department of Health and Human Services - Passed through State of Michigan - USDA Senior Meals	10.550	None	2,745	2,745
U.S. Department of Justice - Direct programs:				
Local Law Enforcement Block Grant	16.592	N/A	23,557	23,557
Bullet Proof Vest Partnership Program	16.607	N/A	11,891	<u>11,891</u>
Total U.S. Department of Justice				<u>35,448</u>
Total federal awards				<u><b>\$ 4,006,474</b></u>



## City of St. Clair Shores, Michigan

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### **Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2004**

Revenue from federal sources - As reported on financial statements (includes all funds)	\$ 855,612
Federal revenue reported as State and other revenue	11,891
Michigan Department of Transportation administered grant revenue not reported in basic financial statements	3,136,226
USDA Senior Meals	<u>2,745</u>
Federal expenditures per the schedule of expenditures of federal awards	<u><b>\$ 4,006,474</b></u>

# City of St. Clair Shores, Michigan

## Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2004

### Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of St. Clair Shores, Michigan and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

### Note 2 - Subrecipient Awards

Of the federal expenditures presented in the schedule, federal awards were provided to subrecipients as follows:

<u>Federal Program</u>	<u>CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Community Development Block Grant	14.218	\$ 43,409

<u>Federal Program</u>	<u>CFDA Number</u>
Community Development Block Grant	14.218

# City of St. Clair Shores, Michigan

## Schedule of Findings and Questioned Costs Year Ended June 30, 2004

### Section I - Summary of Auditor's Results

#### Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted? ☐ Yes ☒ No

#### Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☒ Yes ☐ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☒ Yes ☐ None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☒ Yes ☐ No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.218	Community Development Block Grant
20.205	Federal Highway Administration

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? ☒ Yes ☐ No

# City of St. Clair Shores, Michigan

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2004

### Section II - Financial Statement Audit Findings

None

### Section III - Federal Program Audit Findings

Reference Number	Findings
2004-1	<p><b>Program Name</b> - Community Development Block Grant - 14.218</p> <p>Finding Type - Material noncompliance condition</p> <p><b>Criteria</b> - In order to comply with CDBG regulations, the City should spend program income prior to drawing CDBG funds from HUD.</p> <p><b>Condition</b> - The City failed to expend program income prior to drawing funding from HUD.</p> <p><b>Questioned Costs</b> - None</p> <p><b>Context</b> - The City is electronically connected to HUD via the IDIS system. This system does not allow drawdowns prior to spending program income. The City did not properly track program income during the year or enter program income into the IDIS system to ensure that program income is being spent prior to drawing CDBG funds.</p> <p><b>Cause/Effect</b> - The City received reimbursements from HUD prior to spending program income.</p> <p><b>Recommendation</b> - We recommend that the City develop a system to identify program income and to ensure program income is entered into the IDIS system in order to spend these funds prior to drawing funds from CDBG accounts.</p> <p><b>Grantee Response</b> - The City is in the process of identifying program income and will enter program income into the IDIS system to be used prior to requesting drawdowns.</p>

# City of St. Clair Shores, Michigan

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2004

### Section III - Federal Program Audit Findings (Continued)

Reference Number	Findings
2004-2	<p><b>Program Name</b> - Community Development Block Grant - 14.218</p> <p><b>Finding Type</b> - Material noncompliance</p> <p><b>Criteria</b> - The Consolidated Annual Performance and Evaluation Report (CAPER) should include all expenditures for the program year in the financial summary section of the report.</p> <p><b>Condition</b> - The City failed to include all program expenditures in the 2003 CAPER.</p> <p><b>Questioned Costs</b> - None</p> <p><b>Context</b> - The City did not include street and infrastructure program expenditures of \$215,010 and several other less significant expenditures in the financial summary section of the 2003 CAPER.</p> <p><b>Cause/Effect</b> - The 2003 CAPER was submitted without all of the program expenditures reported.</p> <p><b>Recommendation</b> - We recommend that the City update the financial section of the 2003 CAPER to include all program expenditures and to submit it to HUD along with the 2004 CAPER.</p> <p><b>Grantee Response</b> - The City is in the process of updating the financial section of the 2003 CAPER and will submit it to HUD with the 2004 CAPER.</p>

# City of St. Clair Shores, Michigan

## Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2004

### Section III - Federal Program Audit Findings (Continued)

Reference Number	Findings
2004-3	<p><b>Program Name</b> - Community Development Block Grant - 14.218</p> <p><b>Finding Type</b> - Reportable condition and material weakness</p> <p><b>Criteria</b> - When a non-federal entity enters into a federal grant contract exceeding \$100,000 (or exceeding \$25,000 after November 26, 2003), the non-federal entity must verify that the contractor is not suspended or debarred or otherwise excluded from entering into a federal grant contract.</p> <p><b>Condition</b> - The City failed to verify that a contractor was not suspended or debarred from entering into federal grant contracts.</p> <p><b>Questioned Costs</b> - None</p> <p><b>Context</b> - The City entered into a federal grant contract with Tiseo Brothers and did not have internal control procedures in place to verify that Tiseo Brothers was not suspended or debarred from entering into federal contracts. During the audit, the <i>Excluded Parties List System</i> Website was reviewed to verify that Tiseo Brothers was not suspended or debarred.</p> <p><b>Cause/Effect</b> - The City allowed Tiseo Brothers to perform federal contract work for the City without ensuring that Tiseo Brothers was not suspended or debarred from performing the work.</p> <p><b>Recommendation</b> - We recommend that the City develop an internal control system to verify that contractors are not suspended or debarred from performing federal contract work prior to entering into a contract.</p> <p><b>Grantee Response</b> - The City is in the process of developing an internal control system to verify that contractors considered for federal contract work are not suspended or debarred from doing the work prior to entering into the contract.</p>